The Building Complex

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IN common with all other industries that of building construction was influenced by the war. The demand for it found stimulation in the general business activity that accompanied expansion, but building materials were not the subject of priority orders and in 1918 the Secretary of the Treasury made an appeal to the public to stop all but necessary building. The diversion of building materials to war work had a pronounced effect, and credit for building, when not frowned on by any of the numerous war boards, was restricted by voluntary action of those in control of it, if not by the potential borrowers themselves.

PRICE VAGARIES

Prices for labor and materials went skyward with other prices and are coming down with even greater reluctance. Among the price index numbers building material is found to be one of the most industrious performers. In comparison with the all-commodities index number it moved up more slowly, but it kept on advancing after other prices had stopped and was exceeded only by house furnishing goods in the latest comparisons.[1]

At the time following the armistice, when a resumption of building might have been expected, the building material index number reached new high points. In January, 1920, it was 268, with all commodities at 248. In April, it was 341 with all commodities at 265, and when the latter reached its maximum of 272 in May, 1920, building materials stood at 341. It has receded slowly, reaching the low point of 202 in May last when the all-commodity number was 151. Only the number for house furnishing goods was higher.

ANALYSES OF THE BUILDING SITUATION

While the building material prices were making these records, building was almost at a standstill the country over. There were many surveys of the situation. The advance of rents to unprecedented figures called all kinds of legislative bodies into action. There were investigations, recommendations, suggestions, new laws, court proceedings, vast amounts of publicity, and defense organizations formed by tenants to combat the greed of profiteering landlords. The United States Senate appointed a "Select Committee on Reconstruction and Production" with Senator W. M. Calder, of New York, as chairman. This committee held hearings in different parts of the country, and submitted a report on March 2, 1921. The report is perhaps more interesting for its information than its conclusions and suggestions of remedy by legislation, and no small part of the interest is aroused by its dissonances rather than its consonances. This is not surprising. In such surveys there is always a pronounced tendency to confuse causes and effects and search for the former is likely to lead afield, especially when conditions are not yet settled. The report is none the less a very valuable contribution.

The New York Legislature appointed a committee to investigate the building situation. The Illinois legislature did likewise, and in both instances there was uncovered sufficient evidence of combinations in restraint of trade,

[1] The Bureau of Labor Statistics index numbers of wholesale prices are cited.

conspiracies, agreements, bribery and collusion, to warrant criminal indictments and in some instances convictions have already been secured. Material men, contractors and labor leaders were involved and the investigations have not been completed.

BUILDING DETERRENTS

Even cursory examination of the building situation will disclose that it was influenced by the many factors that entered into the general dislocation. Attempts to attribute conditions to any one cause must fail, and the application of any one remedy would fail as decisively.

Wages, their increase and stubborn maintenance at the high level, have been frequently given as the one or chief deterrent to new building enterprises. It has been one deterrent, of varying force in different communities, but it has probably been no greater a deterrent than labor inefficiency, which cannot be expressed in terms of dollars.

The price of building materials has been a deterrent but price at times was no more effective to stay the desire to build than scarcity of materials. Senator Calder's committee went beyond the question of the price of materials in the effort to find causes. It fixed on coal, coal mining and coal distribution, as a fundamental cause of the high price of building materials, with transportation, and its cost and inefficiency, in second place, and the direction of credit, in third. Coal is placed as the great sinner. For a time it pushed everything else off the railways. It sought and received, or was naturally given priority while building was under the war ban. Coal was gambled in, held back, made short by strikes, stored in cars that could have been used for other purposes, and finally was bid up to a figure that found reflection in the price of building materials, like lime, brick and cement.

However, in the same report, it appears that subsequently coal was plentiful, if not cheap, that there were many thousands of idle cars, that the consuming public was all but tearfully asked to buy immediately, and still building materials were high and building lagged. But coal and its carriage must be given position as a contributing cause to the failure of a resumption of building.

In the enumeration of causes of the building slump, the bankers came in for frequent and vigorous denunciation for withholding credit. The Federal Reserve insurance companies which make mortgage loans were pilloried, and the builders and real estate operators seemed to take particular joy in hammering these forces.

BUILDING SHORTAGE REAL

The definite information to be gained from study of the current history of building construction is that there is a shortage of building the country over. At the time this is written, the shortage is finding little to alleviate it.

Building is gaining a little everywhere in comparison with the duller periods, but generally construction work is waiting for release from the domination of prices that are still high, and conditions that make for costs beyond the probable replacement value two or three years hence. Money which goes into the construction of buildings is returned slowly. The investment is usually amortized over a long period of years. When there is prospect of a fall in wages or materials, building becomes a highly speculative adventure. The building of today will have to meet the competition of the new one built tomorrow with cheaper materials and

labor. If it does meet that competition, part of the money used for its construction must be charged off as loss. The value must be written down to meet the new scale of price and wages.

Various estimates of the building shortage are current. At the annual convention of Real Estate men in Chicago in July, Herbert Hoover said:

> I need not recount to you that the cause of this critical problem has been the diversion of our economic strength from permanent construction to manufacture of consumable commodities during and after the war. In 1910 we averaged about 110 families for each 100 homes and in 1920 about 117 families. This indicates a shortage of nearly 1,500,000 homes even on the 1910 standard.

Mr. Hoover also asserted that 60 per cent of the population is living as tenants, which he considered too large a proportion for social safety.

The building shortage is real. The best and most recent study of it is that of Mr. A. G. Wheeler in the *Bankers Economic Service* (Special Analysis June 21 to July 12.)

Mr. Wheeler explains this table as follows:

"We see that during the twelve-year period beginning with 1909 and ending with 1920, only three years show a surplus of relative volume over normal building operations, while nine years show a deficit; and that the final result is a net deficit of $2,884,600,000 in relative volume. This amount, then, expresses the relative shortage of

TABLE I—BUILDING OPERATIONS IN THE UNITED STATES FOR THE PERIOD 1909–1920*

Year	*I Population of the United States in Thousands*	*II Total Expenditures in Thousands of Dollars*[1]	*III Index Number Building Materials Group*[2]	*IV Relative Volume of Building in Thousands*	*V Relative Normal Volume of Buildings*[3] *in Thousands*	*VI Relative Surplus or Shortage in Thousands*	*VII Relative Volume Per Cent of Normal*[4]
1909....	90,812	1,122,500	96	1,169,000	1,056,300	+ 112,700	111
1910† ...	91,972	1,075,300	100	1,075,200	1,069,700	+ 5,500	101
1911....	93,708	1,050,500	100	1,050,400	1,089,900	— 39,500	96
1912....	95,157	1,101,100	98	1,123,500	1,106,700	+ 16,800	101
1913....	96,509	1,016,600	99	1,026,900	1,122,400	— 95,500	91
1914....	98,289	921,000	96	959,400	1,143,100	— 183,700	84
1915....	100,041	965,800	93	1,038,500	1,163,400	— 124,900	89
1916....	101,091	1,140,300	100	1,140,300	1,175,600	— 35,300	97
1917....	102,228	819,200	124	660,600	1,188,900	— 528,300	55
1918....	103,466	496,500	151	328,800	1,203,300	— 874,500	27
1919....	104,519	1,505,300	192	784,000	1,215,500	— 431,500	64
1920† ...	105,683	1,607,800	308	522,600	1,229,000	— 706,400	42
						—3,019,600	Average, 79%
						+ 135,000	Shortage, 21%
					Relative Shortage,	2,884,600	

* Base 1909–13.

† U. S. Census. Other years estimated.

[1] Corrected to equal 286 cities in each instance.

[2] U. S. Bureau of Labor Statistics.

[3] The per capita average (1909–13) applied to the population's growth.

[4] Decimals omitted.

TABLE II—SHORTAGE BY YEARS

	Relative Amount	*Per Cent of Total Shortage*
1914	$183,700,000	6.37
1915	124,900,000	4.33
1916	35,300,000	1.23
1917	528,300,000	18.31
1918	874,500,000	30.31
1919	431,500,000	14.95
1920	706,400,000	24.50
Total	$2,884,600,000	100.00

SHORTAGE BY GROUPS OF STATES

	Relative Amount	*Per Cent of Total*
New England	$336,921,000	11.68
Eastern States	1,255,378,000	43.52
Southern States	190,095,000	6.59
Middle West	234,518,000	8.13
Western States	279,518,000	9.69
Pacific States	588,170,000	20.39
Total	$2,884,600,000	100.00

TABLE III—RATIOS OF BUILDING OPERATIONS BY CITIES, 1909–1920*

Per Cent of Normal
(decimals omitted)

Year	*New York*	*Chicago*	*Philadelphia*	*Detroit*	*Cleveland*	*St. Louis*	*Boston*	*Baltimore*	*Pittsburgh*	*Los Angeles*	*San Francisco*	*Buffalo*	*Milwaukee*	*Washington, D.C.*	*Newark*	*Cincinnati*
1909	134	104	116	88	85	127	84	88	126	68	134	99	98	122	114	88
1910	99	104	96	92	84	99	91	98	99	98	93	85	78	99	101	93
1911	91	110	100	89	99	94	108	98	84	96	87	94	97	115	81	135
1912	104	92	93	111	103	104	120	104	81	123	99	117	123	103	86	97
1913	72	90	95	120	129	76	97	112	110	115	87	105	104	61	118	87
1914	62	85	87	105	145	64	138	108	132	60	114	95	79	60	73	90
1915	79	100	99	115	173	58	167	113	106	40	57	106	89	78	59	153
1916	92	106	114	158	158	59	144	110	94	44	69	107	112	91	64	109
1917	34	47	62	92	113	42	98	69	62	37	46	68	64	61	50	84
1918	15	20	22	32	48	19	26	25	34	15	21	36	21	27	23	30
1919	54	48	74	111	104	48	62	112	50	37	28	52	69	59	69	56
1920	37	21	38	61	89	21	46	67	34	47	30	32	31	34	42	38
Shortage†	27	23	17	3	1	34	2	8	16	36	28	17	20	24	27	12

* Base 1909–13 = Hypothetical Normal.

† Accumulated Shortage for the entire period.

building in 286 cities of the United States, although when the amount is released from its subjection to the price level[2] it becomes $8,884,568,000 which states it in the terms commonly used; the real shortage, however, is expressed by the previous figure."

"The ratios of building operations given in the table,"[3] says Mr. Wheeler, "show the per cent of normal building attained each year. Normal is, of course, hypothetical, and in the present instance is arrived at by using the average of the five-year period, 1909–1913, as a base from which to draw the volume of building per capita for a representative period. This per capita amount is then applied to the population's growth at the various points each year to date."

Housing Shortage the Chief Irritation Point

Mr. Wheeler gives definite information. It compels the conclusion that much building is required to bring conditions to normal everywhere. Normal, however, is a hypothetical term, as Mr. Wheeler points out. The tables show that there is a tendency to overbuild which becomes strongly pronounced at times. Building, also, is a general term. It includes many structures besides residences. It is the lack of residential buildings which has caused most of the discussion. It is the shortage of these that has opened the way for the increase of rents. These increases fell with the greatest force on the people least able to bear them. The hardships that followed were very real. The rent profiteers were unpopular. They were openly taking advantage of the situation. Not only were rents enormously increased, especially in the large cities, but every effort was made to compel the signing of long-term leases at the advanced rates. The outcries were long and loud. Thousands of plans were offered as a means of aiding tenants and punishing landlords. There were some new laws and some restraints in the enforcement of old ones but, generally, the law afforded scant relief. It probably was less effective than the publicity. Interference with the rights of owners of property is very difficult in this country of Anglo-Saxon institutions.

There were elements in the situation, even at the stage of its acuteness, which showed the futility of the effort to adapt permanent remedies to a transitory case. In New York, for instance, a survey showed that there were thousands of buildings unoccupied. They were devoid of conveniences and no one seemed interested to live in them. In Chicago there were always vacant tenements. The people, however, had been prosperous. Wages were high, money was plentiful, and, with characteristic American desire, the demand was for dwellings and apartments equipped with all manner of modern conveniences. There was a steady movement from old buildings to new or better ones so long as any were obtainable.

The Lag in Home Building Transitory

A notable feature of any movement for business expansion is the position of real estate and building in the scheme which involves increasing activity in all lines of business over a considerable period. Real estate seems always to be last to feel the influence of such a general movement. It is equally slow to respond to the change downward in activity. The reasons are not difficult

[2] With the change in the index figure found in column III there will be change in the dollar enumeration of the building shortage. This, however, will not account for the various estimates of the shortage which appear from time to time. They are mere guesses.

[3] Table III.

to find. A new home, or a new or additional business structure, is a consequence of prosperity—of the capacity to pay for it. Dwellings, whether detached or in apartments, are not subject to sudden changes. They are occupied by the owners or are under lease, and changes of occupancy are infrequent. A change in business conditions must be of some duration before its influence is exerted to affect a position so permanent. Once a new adjustment has been made, however, a similar degree of permanency halts the change. A lag in building construction, particularly of homes, might be expected for these reasons, but the regular procession of economic depression is lowering of prices, slowing up in volume of production and consequent reduction in the amount of capital needed. This brings a fall in interest rates. There is every reason for believing that this is now in process and presently interest rates will be within reach of the home builder. Moreover, capital in times of depression becomes timid, and real estate mortgages are the recourse of the timid investor.

LOCALIZED CONGESTION AND HIGH RENTS WILL YIELD SLOWLY

Study of the Wheeler tables seems to show that the accumulated shortage of buildings is not everywhere so serious as in some particular places. If the Hoover statement is correct and there has been an increase of only seven families for each hundred dwellings, neither morals nor health are in serious jeopardy. The increase of seven families is, however, not evenly distributed. That average means a menacing and intolerable congestion at many points with incapacity to pay as the cause, and an annoying congestion at other points with the desire of many people to live in the same section or neighborhood as the cause. This is a common American trait comparable to the common desire to ride on the same train, or boat, or street car on which everyone else also desires to ride.

It will be noted that the accumulated shortage in Detroit and Cleveland cannot be serious in terms of present day conditions of prices and the necessity for national economy, but the shortage is everywhere serious in view of the increase of rents. Until the point of saturation of the building market is reached, rents will yield slowly and rents are too high. The return on new building investments is high and the return on old ones is out of all proportion to a fair profit. The rental yield is also out of proportion to the return on other investments. Under other less trying conditions this should draw funds toward building and ultimately work toward the new level. But prices and conditions in building have not yet been adjusted to permit more than a small beginning.

There are other factors at work. The movement cityward, so pronounced when factories were crying for labor at high wages, has been stopped or reversed. When automobile production was at its peak in Detroit in 1919–1920, there were more than 20,000 deserted farms in Michigan. The migration of negroes from the South to northern cities, caused great disturbance in residential districts of the latter. Many of the negroes have returned to their former abodes.

"For rent" signs began to reappear months ago in many cities. There has appeared a tendency for conditions to right themselves so far as is possible without the ordinary amount of building. In this respect then, at this time building is in the same position as everything else. The desire of all business men is to do business. The discovery of a remedy to aid or hasten the

work of ordinary economic forces is, then, important. This is the problem to which Congress, the Administration and innumerable organizations and individuals have addressed themselves.

BUILDING NOSTRUMS

As the causes for building inertia consequent on the war disappear, and building is not resumed or is resumed very slowly, new causes are assigned. These causes vary according to the whims or predilections of their proponents.

Before the National Convention of Real Estate Men in Chicago in July, Senator Calder gave final and particular stress to the lack of credit—to the unwillingness of bankers to make advances for building purposes. He abandoned coal, and railroad rates and other causes previously assigned. Scant attention was given to the reports of the legislative committees in New York or the proceedings in Chicago. The influence of illegal combinations of builders, price fixing, collusive bidding and distribution of contracts, and other dark methods was largely ignored. Labor, guilty of a very similar policy on the part of its leaders, was given a position of less influence on building than that of the bankers.

As is customary in such cases, the remedy for this dereliction on the part of the bankers was an amendment to the Federal Reserve Act. The Federal Reserve System is the port of call of all financial ships in distress. Senator Calder's discovery that national banks have two billions in savings deposits, of which only eight per cent is invested in real estate mortgages, is the foundation on which he bases his plea for an amendment to the Reserve Act giving the Reserve Board power to authorize the investment of the savings deposits of national banks in long term securities.

The allegation that the banks have not been making real estate loans is true in large measure. Money has been neither plentiful nor cheap for a long time. But bankers who have customarily made loans on real estate security have not been refusing loans. In many large cities money has been available for building. It may be mentioned that in Chicago several banks have been advertising for some months that they had funds for that form of investment. Similarly, there has been constant advertisement both in New York and Chicago of bonds secured by real estate mortgage. Undoubtedly, the banks so advertising make only conservative loans and are not interested to lend for construction purposes on a basis of repayment in "installments like rent."

However, a first hand investigation disclosed that even when the outcry against high rents was shrillest, the demand for real estate mortgage loans on terms that met the requirements of conventional safety was small. One large Chicago bank reported two applications for such loans in seven months, and made both. There was at the same time from its customers a demand for mortgages as investments which could not be satisfied. Similar reports came from other institutions, and from other cities.

On the other hand, it was possible to find hundreds of persons who not only wished to build but were waiting for better prices and more favorable conditions. Architects everywhere had pending orders. In the aggregate, there were hundreds of millions of dollars waiting until prices and conditions were favorable. These hundreds of millions are still waiting.

THE FEDERAL RESERVE ACT—A CURE-ALL

It remains only to discuss the probable influence of the proposed amend-

ment to the Federal Reserve Act on building, and otherwise. The present law permits national banks to lend a part of their time or savings deposits on farm mortgages or on real estate. That provision of the law was acceded to by its framers with great reluctance. Its supporters were ardent in their claims that such a provision would be most helpful to those desiring to build or buy homes. Its effect has been negligible. Theoretically, at least, the national banks are commercial banks. Their managers are not familiar with real estate mortgage technique. A commercial banker has an habitual horror of mortgages. Probably he should have.

Worse even than high rents or a shortage of homes would be an invasion of the integrity of the commercial banking system. Loans on farm or real estate mortgage should never have been mentioned in the Federal Reserve Act. To broaden the application of the existing provision is fraught with danger. The error of permitting national banks to do a savings business is becoming apparent. The abolition of that privilege would be a more pertinent recommendation than permissive or compulsory loaning of the savings deposits in large proportion on land mortgages.

CREDIT ONLY ONE ELEMENT IN A COMPLEX SITUATION

It is doubtful if easy credit would prove a stimulant to building so long as other conditions remain as they are. Interest rates have been high for many reasons. Americans have been forced to bid against a needy Europe for funds. Taxation has run up the returns demanded by investors. A shrinking dollar increased the demand for capital just as an expanding dollar will diminish such demand. Building enterprise has been outbid in the money market by industrial enterprise willing to pay seven to eight per cent for capital.

When other conditions have righted theselves, there will be credit for building. Other conditions *may* right themselves partly as the result of new laws or amendments of old laws, but it is more likely that changes will result from the return to more normal, social and business relationships. It is to be expected that there will be still more suggestions and still more disclosures of hidden forces working for high wages and prices, but in the end, when time has brought the foreseeable readjustments, it will be found that building has been subjected only to the common influences that attended war, plus, perhaps, an unusual degree of human chicanery.